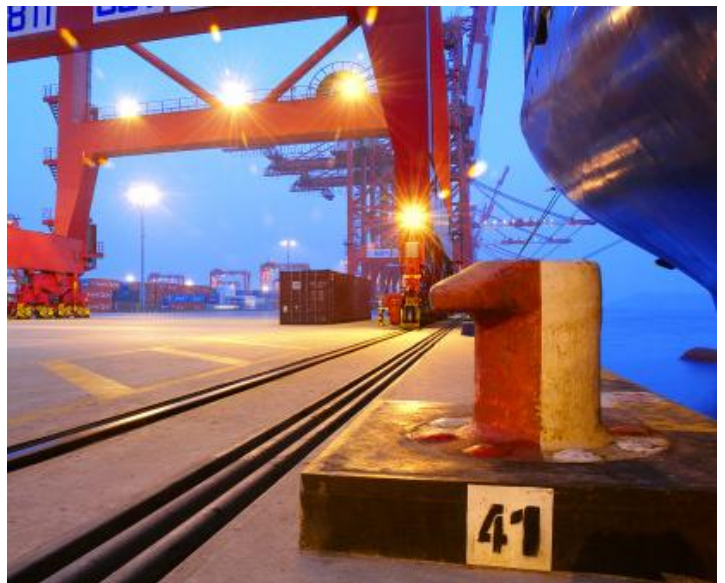


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Strategic vs. Tactical Procurement

Shifting Focus Towards Value Creation

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Introduction:

As organizations look to right-size in today's economic environment, Procurement, despite its cost-saving mission, is not immune from the cuts that have effected many other parts of the organization. . With procurement professionals today taking on additional workload, it is imperative that the focus remains on continually moving the "sophistication needle" from tactical initiatives to higher value, strategically focused ones.

The following are the top ten procurement dimensions that compliment a Procurement organization's ability to achieve maximum results. Knowing when and how to move an initiative along the continuum from tactical to strategic is critical to achieving optimal results.

1. Procurement Strategy

A shift of focus from transactional purchasing to value-based procurement can translate to significant bottom line improvements to the corporation. In comparison to reactive transactional procurement, a best practice procurement strategy examines the current supply and demand markets, and the commercial terms and conditions are of significant importance. The procurement strategy should also include a pricing structure and guidelines on how the relationship with key suppliers will be managed.

2. Tools and Technology

In comparison to faxed purchase orders and the use of Excel spreadsheets, an effective technology platform, including a robust database management component, is vital to providing reliable and accurate expenditure information for spend analysis and management. An integrated ERP system with an effective Procurement / e-Procurement suite is a key enabler to successful procurement.

3. Source-to-Pay Process

A well defined and followed source-to-pay (S2P) process allows for more strategic initiatives to quickly be identified and put into action, with the appropriate allocation of procurement resources. While efficiency in processing purchase orders, vendor payments and the receipt of goods may be the key objective here, driving out maverick spend and reducing ad-hoc spend can be collateral benefits. Enabling the S2P process through technology, such as with an effective Purchasing Card (P-Card) program, e-Catalogy and automatic approval authorities, provides further streamlining.

4. Organizational Structure Alignment

Having the right organizational structure in place allows procurement to influence key purchases for the company as well as lead change with suppliers and across functional areas of the business. Within the procurement group itself, having a balance of resources between tactical procurement and strategic sourcing aids in meeting departmental resource budgets and meeting the savings that the organization expects of the Procurement organization.

5. Category Management and Spend Management

The need for category management comes from the repetitive purchasing of products and services with common characteristics (i.e., resin, paper, etc.) These products typically have common internal customers, allowing for the opportunity to aggregate spend. Grouping them into categories (across both direct and indirect areas of the business) enables efficient management of these products/services for the company.

Successful spend management is tied to the ability to plan purchases. When companies know how much and when they will buy, and possess the ability to proactively plan for this spend, then they can engage in spend management. Spend management may impact the cost per unit as well as the number of units purchased (demand management).

6. Supplier Relationship Management

The strategic relationship with suppliers begins long before the first order is placed, and continues well beyond the receipt of goods. This relationship is far different from the transactional tactical supplier relationship. Strategic relationship management transcends procuring products and services. It seeks to maximize the benefit for both supplier and customer and identify and implement mutual successes that will benefit both parties. Among the topics managed in the strategic relationship include continuous improvement, assurance of supply, lowest landed cost, lowest total cost of ownership, performance management, performance improvement, and KPI's among others.

7. Culture and Change Management

An organizational culture that understands the importance of an effective procurement process is vital if Procurement can bring the value to the organization that it is capable of. . As a Procurement organization grows and matures, its skills and capabilities must go hand-in-hand with the tactical purchasing activities and “big picture” strategy of the Procurement organization.

8. Contract Management

Strategic procurement organizations regularly negotiate and renegotiate contracts. The Procurement department often works closely with Legal, Risk Management, and other contributing subject matter experts. While the terms and conditions of some contracts are sufficiently handled by Legal with little input required from other departments, strategic contracts usually require the collective wisdom of multiple functions working together under a project management structure (often led by Procurement). This structure usually takes responsibility for the startup, maintenance, and cancellation of contracts.

9. Inventory Management

Most organizations practice some form of inventory management. This practice usually grows in complexity as companies grow, especially in today's world of M&A growth. Multi-location global organizations have the potential to build large and costly inventories. Strategic inventory management seeks to maximize the turnover of those inventories without putting the company at risk of running out. Creative inventory management in today's supply chain environment may include pushing inventory back "upstream" to suppliers, consignment of inventory and the use of Vendor Managed Inventory ("VMI").

10. Risk Mitigation

Much like inventory management, as companies grow they have more to lose and therefore more to protect from risk. Obviously, this includes typical product safety risks; however, there are other risk issues of importance that go beyond the typical scope of the Risk Management department. Those issues include assurance of material supply, indemnity from claims arising from a supplier's poorly manufactured products, risk to unexpected pricing fluctuation, PR risk from a supplier failing, risk to quality, etc.

Conclusion:

By knowing when to apply certain strategic procurement practices in lieu of tactical ones on a situation specific basis, Procurement professionals are well positioned to deliver peak performance. Of utmost importance in developing an effective Procurement organization that delivers continuous value to the business is the constant search to transform your organization's level of sophistication from tactical to a more strategic focus. As these ten vital "building blocks" of procurement infrastructure are put in place, the benefits derived will clearly be recognized throughout the organization and will provide momentum toward harnessing spend and ensuring supply at the best cost.



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